



REDCLIFFE | *Exploration Inc.*



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Message to Shareholders

Redcliffe Exploration Ltd (“Redcliffe” or the “Company”) closed its initial public offering financing on August 31, 2006 and was listed for trading on the TSX-V under the symbols REL.A and REL.B on September 12, 2006. Gross proceeds of \$13.6 million were raised through this public financing and prior private placements. It is the purpose of this report to summarize the progress of the Company to date as well as outline the strategies to be employed in 2007 to grow Redcliffe into a junior oil and gas producer. Many new companies were started in 2006 to access the oil and gas exploration opportunities in western Canada. What makes Redcliffe unique and how will we compete as a new kid on the block? Why will we outperform others to achieve the much needed market recognition? The answer to these questions lies in our people, our focus and preparation, plus the proven experience in developing new exploration companies resident in Redcliffe.

Activity at Redcliffe has been immediate and effective. We participated in the drilling or re-entry of 15 (3.98 net) wells over the last 4 months of 2006. This program resulted in 11 (2.74 net) gas wells and two (0.60 net) oil wells for an 87% success rate. The completions and testing operations on these wells extended into the first quarter of 2007. This data suggests a net production capability of approximately 400 boepd from this first phase drilling program.

On November 21, 2006 Redcliffe announced that Redcliffe and Stallion Energy Ltd. (“Stallion”) had entered into an amalgamation agreement to combine the two companies. Between November 2006 and January 2007, certain positive material changes with respect to the business and operations of Stallion were realized and, accordingly, Redcliffe and Stallion entered into an amended amalgamation agreement on January 12, 2007. This business combination was completed on February 27, 2007 after shareholder approvals. Redcliffe, in a reverse take-over transaction, issued to the Stallion shareholders a total of 13.5 million Class A shares and \$8.0 million in cash. This resulted in the formation of Redcliffe Exploration Inc. (“RXI”) that began trading on the TSX-V under the symbols RXI.A and RXI.B on March 5, 2007.

The Stallion combination brought to Redcliffe production of approximately 300 boepd with a further 300-400 boepd awaiting completion of tie-in facilities at the time of closing. A second major benefit was the \$58 million in high quality tax pools resident in Stallion from its initial organization. These pools will not only shelter income but will also provide Redcliffe with significant advantages in equity financings and acquisitions. In addition Redcliffe has identified future drilling locations on the Leaman, Pine Creek and Gold Creek properties, one of which will be drilled during the first quarter of 2007. Most significant to the future growth of Redcliffe is the Gold Creek property, where two wells drilled and completed in late 2006, resulted in test production of 700 boepd and 1400 boepd. Stallion held a 40% and 30% respective working interest in these two wells. At least one offset is planned for the third quarter of

2007 and additional lands and 3D seismic coverage have already been acquired in the immediate area. This is a very exciting addition to our Peace River area focus.

The planning and management experience resident in Redcliffe provided the ability to achieve these initial results in such a short space of time. Each of the management team has previous experience in the formation of oil and gas exploration companies and recognizes the requirement of preparation to drive ultimate success. The Company elected to pursue an "A/B" flow-through share structure as an initial public offering. While this structure provided immediate tax benefits to subscribing shareholders, it left the Company with a short time frame to incur the exploration costs and without any tax pools to shelter income. To mitigate the first issue, Redcliffe founders formed a private company (Redcliffe Energy Ltd.) in the late fall of 2005 with the expressed purpose of assembling drilling and acquisition prospects prior to the formation of Redcliffe. This was accomplished in the winter/spring of 2006. In addition we were able to complement the strengths of the initial founding shareholders with committed technical staff, all of whom invested their own capital in the formation of Redcliffe.

As a result of this early commitment, Redcliffe was able to develop a drilling prospect inventory of over 30 prospects prior to initial public trading in September and was able to identify the Stallion opportunity, thereby solving the tax pool issue. With the drilling success achieved to date, in combination with our existing inventory and the Stallion addition, the Company currently has an inventory of over 40 drilling prospects heading into 2007. While it has been the stated intention of Redcliffe to roll the private company for shares into Redcliffe from the initial public offering, this transaction was postponed until completion of the Stallion amalgamation for structural reasons. This addition to Redcliffe is proposed to be undertaken in 2007. At year end the private company had production of approximately 90 boepd with a further 300 boepd awaiting tie-in.

It is important for shareholders to understand the focus and strategies of any oil and gas exploration company in which they invest. Redcliffe is currently focused on the development of multi-zoned gas prospects in both the Pembina and Peace River areas of western Alberta. We are not a player in Saskatchewan or British Columbia. We do not target heavy oil or shallow gas as a driver for value creation, nor will we be an active driller in the shallow basins of eastern Alberta. Our primary targets are gas-bearing formations in the 2,000-meter depth area as we attempt to find higher-pressure water free gas reservoirs with long-term predictable reserves. We also target liquid rich gas reservoirs to increase their economic return. This focus brings us into competition with the majors and intermediates in our industry. This can result in higher entry costs and delays in bringing production on stream, but we believe such a strategy will result in higher economic returns to the shareholders in the long term.

Of the two areas in which we drill, the Pembina area prospects were designed to provide the lower risk base production for the Company. This is due to the nature of the geological basin and the existing well control. As a result, 75% of the wells drilled by Redcliffe in 2006 were in this area. With the results achieved to date and the follow-up opportunities identified in this first round of drilling, we anticipate the majority of our wells in 2007 will continue to be drilled in this basin. The Peace River area offers a much higher potential return but has correspondingly higher risks and costs. While the Company was 2/4 in this area during 2006, one of the successes tested over 1,400 boepd of gas and associated liquids from two zones. This is the level of success that will significantly impact a new company's value. More wells will be drilled in this region during 2007 as we continue to develop our opportunity spectrum.

In our view, 2007 will provide opportunities not seen in the past four years in terms of growth drivers due to the budgetary cutbacks announced throughout the industry. Redcliffe intends on aggressively pursuing drilling and development projects within our two core areas of operations while remaining cognizant of maintaining a strong financial position due to the continued uncertainty in energy prices. In our industry we are able to sell whatever we produce. However we have no effective control on product pricing. We will continue to focus on natural gas as we maintain our belief in a long-term strong North American gas price. This year will be critical in accessing the opportunities to build an asset and prospect base from which to drive growth in Redcliffe over the next few years.

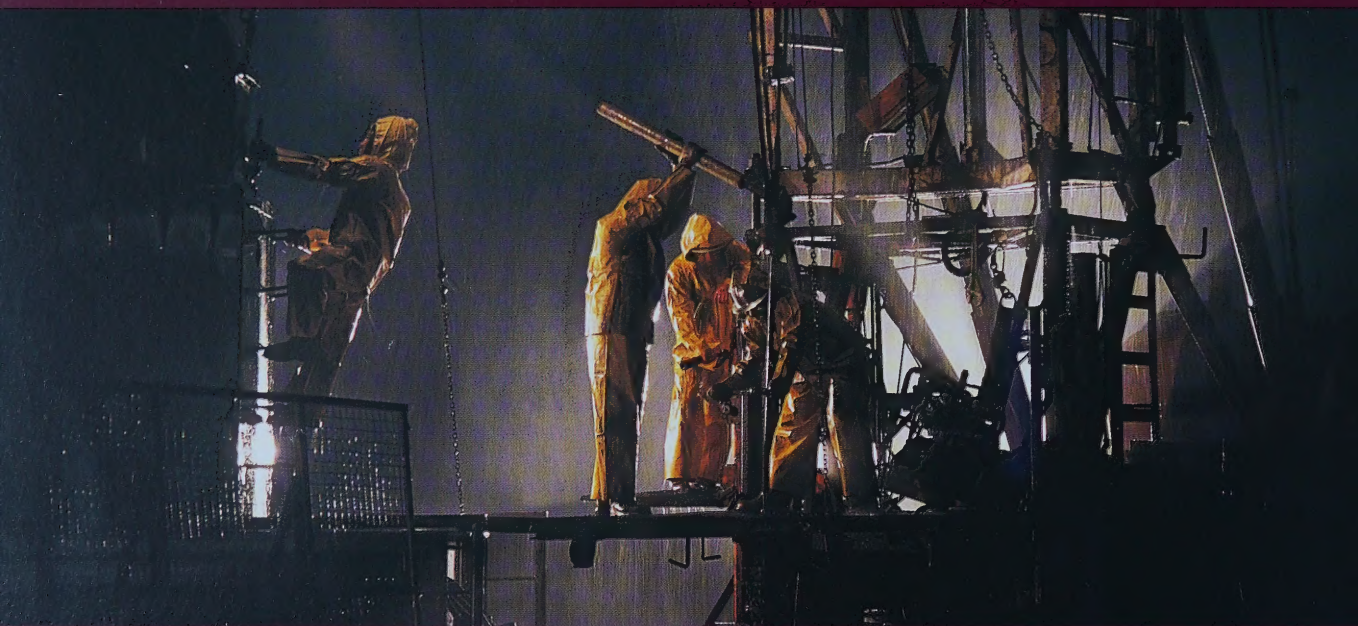
We, at Redcliffe, believe in our technical and management team. The support of our shareholders and general market remains critical to achieving success in this capital-intensive industry. We thank those investors who supported Redcliffe at our formation. We also thank the Board members for their support and advice. There are always new challenges to be met beyond the normal competitive structure of oil and gas exploration. Certainly 2007 will be challenging with the elimination of the Alberta Royalty Tax Credits for small producers, the proposed new tax rules eliminating the Oil and Gas Trust structure, Alberta's review of their existing royalty structures, and the pressure on our industry to reduce greenhouse gas emissions. Our task will be to maintain a clear focus on exploration and development in basins where our technical expertise is competitive. We strongly believe we have the successful start, the technical expertise, and the financial resources to achieve our growth objectives.

On Behalf of the Board of Directors



Daryl H. Connolly
President & CEO

OPERATIONS 2006



Reserves in the Pembina and Peace River Arch areas vary from 1,000 - 5,000 mmcf with liquid content of 50,000 - 200,000 barrels.

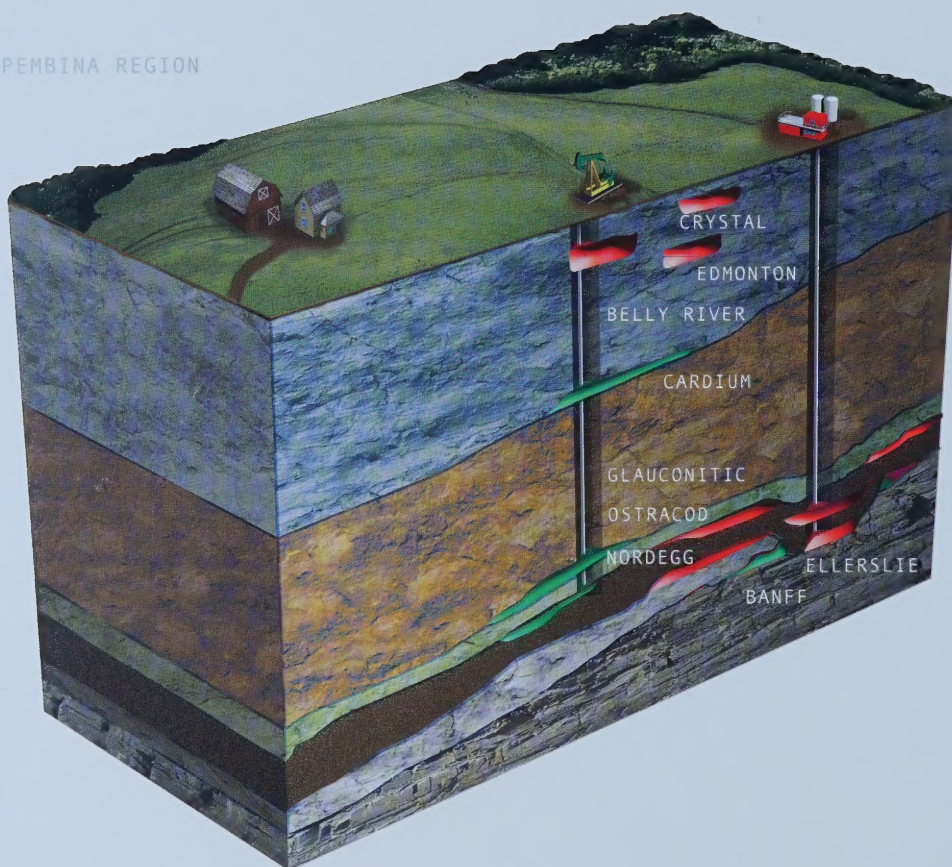
FORMATION & CAPITAL STRUCTURE

Redcliffe Exploration Ltd. ("Redcliffe" or the "Company") was incorporated under the laws of the Province of Alberta on May 4, 2006. Redcliffe is a reporting issuer in the provinces of Alberta, British Columbia, Saskatchewan, Ontario and Quebec. Prior to its initial public offering, Redcliffe raised a total of \$1,350,000 through the issuance of 5,400,000 Class A shares at \$0.25/share on a private placement basis. On August 31, 2006, the Company closed its initial public offering, raising gross proceeds of \$12,250,000. A total of 12,250 units at a price of \$1,000 per unit were sold, resulting in the issuance of 4,900,000 Class A shares and 1,102,500 class B shares. Each unit consisted of 400 Class A shares and 90 Class B shares, with a stated value of \$0.25 per Class A shares and \$10.00 per Class B share. In accordance with the terms of the offering, total proceeds from the sale of the units will be used to fund qualifying exploration and development expenditures, with such expenditures being renounced to investors in accordance with applicable tax legislation. Stock options for Class A shares totaling 1,140,250 were granted to certain officers, directors and consultants on September 7, 2006. On September 12, 2006 both the Class A and Class B shares were listed for trading on the TSX-V under the symbols REL.A and REL.B, respectively.

OPERATIONAL FOCUS

While the western Canadian sedimentary basin offers opportunities for oil and gas exploration and development in a multitude of sub-surface depths, regions and products, it is essential for a new company to match its technical expertise and risk tolerance to a specific set of objectives. At Redcliffe we are focused on two basins offering multi-zoned gas reservoirs that are generally free of water production. While our targets tend to be deeper depths and are therefore more costly, we believe long-term returns to shareholders will be enhanced through this approach. We have selected the Pembina and Peace River regions of western Alberta to focus our exploration efforts.

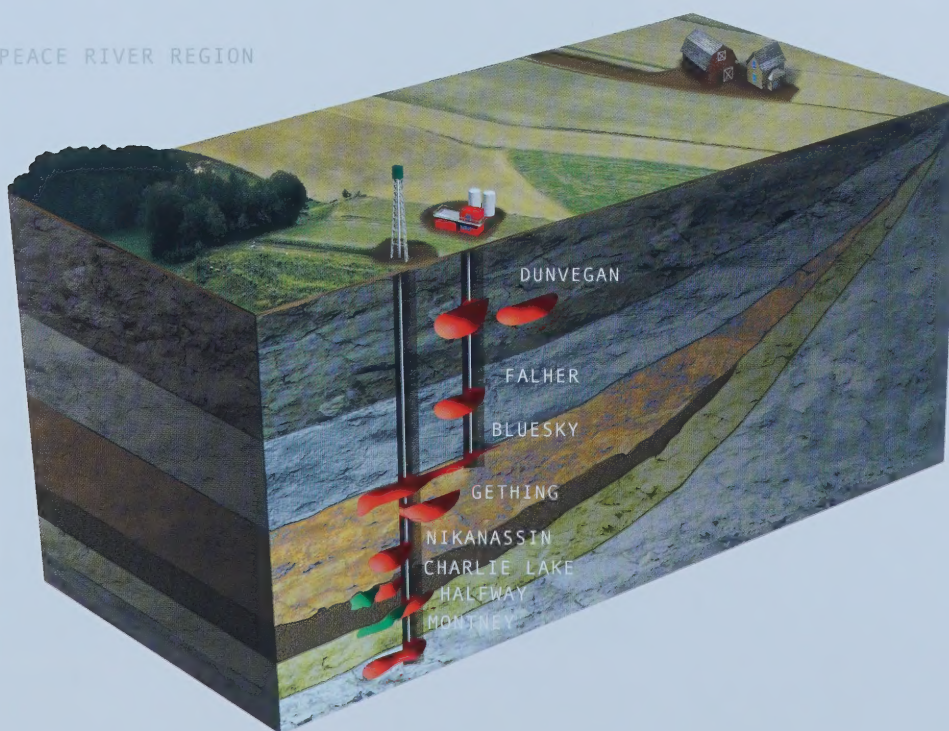
PEMBINA REGION



At Pembina we are focused on a sequence of gas and oil bearing formations ranging from the Nordegg and Rock Creek of Jurassic age to the Basal Quartz, Ostracod, Ellerslie, Glauconite, Viking and Cardium sands of Cretaceous age. Generally these targets are located from 1,500 to 2,300 meters in depth. Well density in the Pembina area provides the exploration staff with initial leads that are supplemented with seismic data to reduce risk. Prospect target sizes tend to be in the 1,000 mmcf and 100,000 barrel level with initial drilling costs in the \$650,000 – \$750,000 range. For gas prospects, production is facilitated by the existing transportation and processing infrastructure. While the acquisition of undeveloped lands in this area is competitive, generally the Company is able to develop opportunities through a combination of Crown land sales, farm-ins and joint venture programs.

Our other area of focus is the Peace River area or northwestern Alberta. This area is again focused on gas exploration but the gas tends to have a high liquid content, thereby increasing economic returns. Targets include the Halfway, Charlie Lake, Montney and Doig of Triassic age and the Cadomin, Nikanassin, Gething and Bluesky of Cretaceous age. Drilling depths tend to be deeper in this area at 1,500 to 2,700 meters. Costs are correspondingly higher with initial drilling varying from \$200,000 to \$1,200,000. What makes the area attractive is the size of the reserves and multitude of potential hydrocarbon bearing formations. Reserves in these formations vary from 1,000 – 5,000 mmcf with associated liquid content of 50,000 – 200,000 barrels. As a result, the area is very competitive and Crown land acquisition costs very high. Opportunities are however becoming more available in 2007 due to decreasing capital budgets of the major players as well as land expiry issues. It is important to utilize both 2D and 3D seismic in this area to reduce risk. Patience is essential to identify prospective targets and obtain the subsurface rights through farm-ins, joint venture programs or Crown land sales. While third party transportation and processing facilities are available, capacities are an issue that can restrict production or delay tie-ins. Redcliffe balances the Peace River Arch program with the lower risk Pembina activity to maintain a risk profile commensurate with the financial resources and the near term and long term growth objectives of the Company.

PEACE RIVER REGION



REDCLIFFE ENERGY LTD. JOINT VENTURE

It is critical in the formation of any new oil and gas exploration company to assemble dedicated and financially invested management and staff. It is equally important to allow your technical team time to develop a portfolio of exploration and development opportunities free of spending or market pressures. That is what the founders of Redcliffe did in late 2005 with the formation of a private company, Redcliffe Energy Ltd. ("Redcliffe Energy"). Redcliffe Energy was incorporated under the laws of the province of Alberta on September 22, 2005. Through a series of private placements Redcliffe Energy closed its initial financing in mid-December 2005 raising a total of \$13,625,837 through the issuance of 13,625,837 common shares. Insiders of the Corporation invested a total of \$2,585,000 through the issuance of 2,585,000 shares. In accordance with the terms of this private placement, total proceeds from the sale of the insider shares were to be used to fund qualifying exploration and development expenditures, with such expenditures being renounced to these investors in accordance with applicable tax legislation.

The business plan for Redcliffe Energy was two-fold. We wanted to complete the assembly of the technical team and to develop and assemble drilling prospects for the ultimate use of a new public company to be created in mid 2006. The successful implementation of this plan resulted in the formation and ultimate initial public offering for Redcliffe. As such, and as outlined in the Redcliffe offering prospectus, a joint venture was created with Redcliffe Energy to provide all the prospect inventory to Redcliffe under specific joint venture terms. Once Redcliffe closed its initial public financing, all prospects, identified or developed by either company, were shared on an equal basis.

It was also the stated intent to combine these two entities into Redcliffe once public trading in the shares began. Ultimately, and as outlined later in this report, the Stallion Energy Ltd. amalgamation opportunity postponed the Redcliffe Energy transaction into 2007. The start provided to Redcliffe by this unique two-step process proved valuable in allowing the Company to be very active in its first quarter of established existence.

Redcliffe became fully operational with the closing of its initial public offering and listing on the TSX-V in mid-September. To the end of the year, the Company participated in the drilling and re-entry of 15 gross (3.99 net) wells resulting in the casing of 11 (2.74 net) gas wells, two (0.60 net) oil wells and one (0.24 net) dry hole and one (0.40 net) oil well. One did not elect to participate in the casing operation. Redcliffe operated 55% of these activities. Of the total wells 10 were in the Pembina area while one was in Harrattian and four were in the Peace River Arch area.

Completion and tie-in operations on these wells in early 2007 resulted in an estimate of 400 boepd of potential production from these wells. Approximately 75% of this production will be natural gas. These



estimates reflect anticipated well production capabilities, but also take into account potential plant and transportation restrictions. As with any new production, exact predictability is not possible until production stabilization is achieved.

Our most notable successes with the 2006 drilling program were in Pembina at Wildwood 13-18, Crystal 2-6, Pembina 1-18 and Breton 3-29, while the Harmattan 6-22 well and the Gold Creek 13-25 well also significantly impacted the production potential for Redcliffe. The Crystal 2-6 gas well tested at 1,700 mcfd (W.I. 18.75%), the Pembina 1-18 tested over 100 boepd (W.I. 22.5%) and the Breton 3-29 gas well tested at 1,000 mcfd (W.I. 18.75%). Each of these wells will be tied-in to production during the first half of 2007. Redcliffe will try to expand our acreage and opportunity at each area during 2007. In the Wildwood area our 13-18 (W.I. 37.5%) well tested oil and gas at over 100 boepd and two undeveloped sections were acquired in early 2007 to compliment our existing three section holdings. Additional wells will be drilled on this developing play in 2007. At Harmattan the 6-22 well (W.I. 18.75%) tested over 250 boepd of oil and gas and a follow-up location exists at 11-22. It is expected that each of these discoveries will be brought on production in the second quarter of 2007, subject to facility construction. In the Peace River play Redcliffe participated in a major discovery with Stallion Energy at the 13-25 Gold Creek location. This well tested over 1400 boepd of gas and oil and is more fully described later in this report.

At year-end Redcliffe had developed a significant prospect inventory as a result of both drilling success and its joint venture program with Redcliffe Energy. While undeveloped land holdings totaled 14,245 acres (4,309 net) for Redcliffe, the Company also has access to the 27,579 acres (10,249 net) held by Redcliffe Energy at year-end.

Redcliffe retained the independent consultant firm of McDaniel & Associates Consultants Ltd. ("McDaniel") at year-end to provide an evaluation of the Company's oil and gas assets. This evaluation was undertaken under the NI 51-101 guidelines and therefore is very restrictive in its interpretation of newly discovered reserves.

At December 31, 2006, McDaniel has provided an estimated reserve potential for Redcliffe of 504.9 mmcf of natural gas and 52,800 barrels of oil and natural gas liquids on a proven basis and 887.0 mmcf

of natural gas and 89,800 barrels of oil and natural gas liquids on a proven plus probable basis. Based on McDaniel, Redcliffe has a proven reserve life index of 2.9 years and a proven plus probable reserve life index of 4.2 years. All of the reserve additions were the result of exploration activities. Redcliffe did not acquire any reserves through purchase in 2006.

COMPANY INTEREST RESERVES SUMMARY, DECEMBER 31, 2006

	Proven Reserves	Proven Plus Probable Reserves	Estimated Future Production	Estimated Future Net Present Value
Oil and Natural Gas Liquids	89,800	100,000	1,000	\$100
Natural Gas	1,000	1,000	1,000	\$100
Total	90,800	101,000	2,000	\$200

COMPANY INTEREST RESERVES SUMMARY, DECEMBER 31, 2005

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Oil and Natural Gas Liquids	89,800	100,000	1,000	\$100
Natural Gas	1,000	1,000	1,000	\$100
Total	90,800	101,000	2,000	\$200

Based upon the McDaniel evaluation, Redcliffe achieved a finding and development cost, before future development costs, of \$37.01 per barrel of oil equivalent on a proven basis and \$22.72 on a proven plus probable basis. Including future development costs these finding and development costs increased to \$41.63 per barrel of oil equivalent on a proven basis and \$26.17 on a proven plus probable basis. The proven and probable values reflect the NI 51-101 guidelines in restricting the assignment of proven reserves from new wells with no production history. We anticipate that with production history, a greater portion of the Company's reserves will move from probable and proven non-producing to proven producing. In addition, future development and production history may allow the independent reserve evaluators to assign additional reserves to these initial properties, thereby decreasing their per unit finding and development costs.

	Findings	1999
	Exploration	12.01
	Development	11.24
	Findings	21.25
	Exploration	12.72
	Development	26.17

Findings and development costs per barrel of oil equivalent (BOE) on a proven basis
 Findings and development costs per barrel of oil equivalent (BOE) on a proven plus probable basis

On November 21, 2006, Redcliff announced that Redcliff and Stallion Energy Ltd. ("Stallion") had entered into an amalgamation agreement to combine the two companies. Between November 2006 and January 2007, certain positive material changes with respect to the business and operations of Stallion were realized and, accordingly, Redcliff and Stallion entered into an amended amalgamation agreement on January 12, 2007. This business combination was completed on February 27, 2007 after shareholder approvals. Redcliff issued to the Stallion shareholders a total of 13.5 million Class A shares and \$8.0 million in cash. This resulted in the formation of Redcliff Exploration Inc. ("RXI") that began trading on the TSX-V under the symbols RXI.A and RXI.B on March 5, 2007.

The Stallion transaction provides the following advantages for Redcliffe:

1. Adds approximately 300 boepd of immediate production and an anticipated additional 300-400 boepd by mid 2007,
2. Adds 2,412.3 mmcf natural gas and 83,800 barrels of oil and natural gas liquids on a proven basis and 4,045.1 mmcf natural gas and 144,000 barrels of oil and natural gas liquids on a proven plus probable basis,
3. \$58 million of high quality tax pools, and
4. Significant upside drilling prospects at the Leaman, Pine Creek and Gold Creek properties.

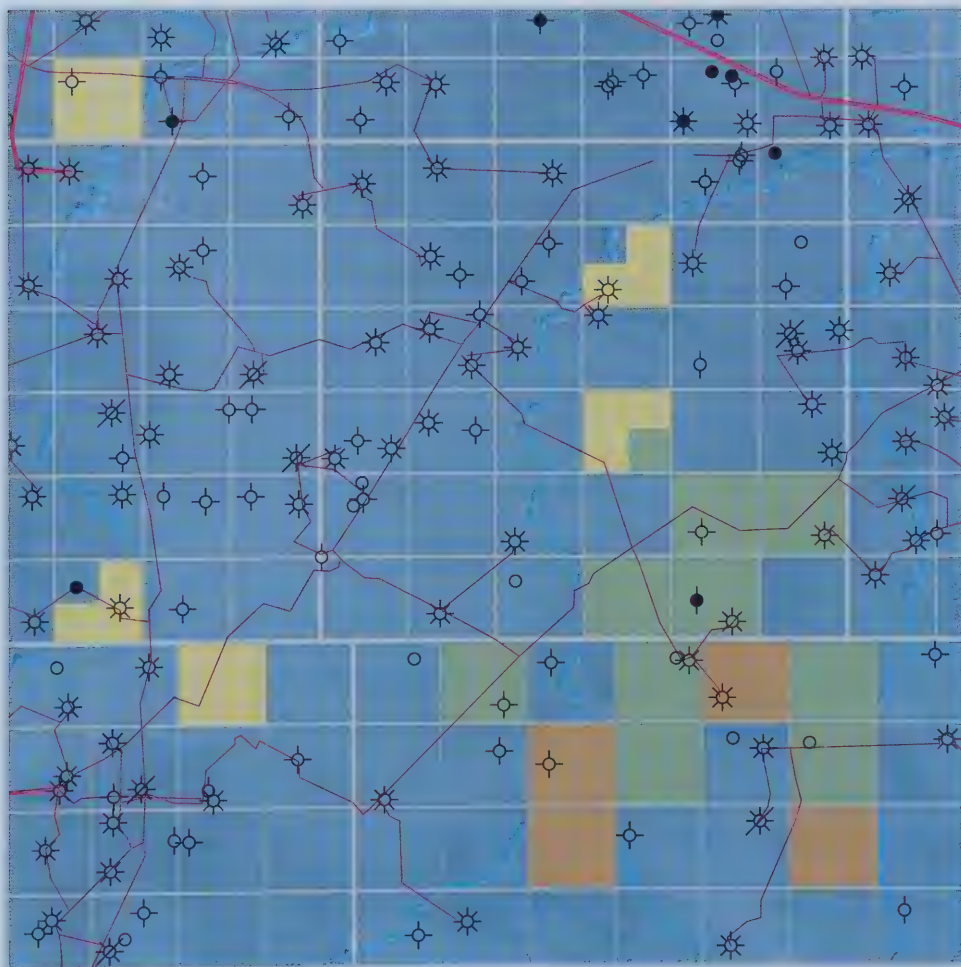
The producing properties of Stallion are located within the two primary basins of focus for Redcliffe, Pembina and the Peace River Arch. The majority of the existing production is operated (70%) by Stallion and consists of only 12 producing wells making the operational transfer very simple. Associated with this production were a total of 13,334 acres (5,940 net) of undeveloped lands at year-end.

The significant tax pools acquired through the Stallion transaction will provide a multi-fold benefit to Redcliffe. Beyond addressing the sheltering of future income from production, the pools provide the ability for Redcliffe to continue to access the flow-through equity market and benefit from the associated equity premiums. In addition, Redcliffe will remain competitive in the acquisition market through its ability to income shelter any such production purchase.

Redcliffe also gained a significant drilling prospect inventory from the Stallion transaction. At Leaman two new locations were identified, the first of which will be drilled in early 2007. Similarly, at Pine Creek a new well will be drilled in the first quarter of 2007 and, if successful, will identify a follow-up location.

By far the biggest upside is associated with the Gold Creek property, which witnessed two major discoveries in late 2007. First, the previously drilled 4-11 well was completed and tested in December. Upon completion, this well tested at rates of 3,400 mcfpd of natural gas with associated liquids of 240 bpd. Stallion (now Redcliffe) holds a 40% interest in this well. We anticipate 4-11 will be placed on initial production late in the first quarter of 2007. As a result of this success and the 3D seismic coverage, Redcliffe acquired an offsetting 480 acres at a Crown land sale, thereby establishing a follow-up location for 2007. Also in December 2006, the 13-25 gas well was drilled and completed. This well subsequently tested a total of 7,000 mcfpd of natural gas with 400 bpd of associated liquids from two zones. RXI holds a 22.5% interest in this well, with Redcliffe Energy owning an additional 7.5% in the well. Production is not anticipated from the 13-25 discovery until the third quarter of 2007 due to facility construction.

As a result of this well and the activity surrounding the Gold Creek property, Redcliffe has identified four more drilling locations, the first of which will be drilled in the third quarter of 2007. Redcliffe, with its partners, will be working to expand the Gold Creek property and production during 2007. Additional 3D seismic coverage is being obtained during the first quarter of 2007 to assist in the development of the property. Both wells will be processed at a third party plant. Transportation issues to this plant will restrict the productivity levels of these gas wells. Resolving the transportation issue will be essential to the further development of this property.



The combination of Redcliffe and Stallion in the first quarter of 2007 provides a solid base for production, cash flow and growth potential for Redcliffe Exploration Inc. It will be our intention to further consolidate and strengthen Redcliffe Exploration Inc. with the proposed acquisition of the private company, Redcliffe Energy, in 2007. This will add additional production, a new producing property at Medicine River, increased working interests in all Redcliffe properties and a direct interest in the drilling prospects and undeveloped land assembled by Redcliffe Energy, particularly in the high impact Peace River area.

2007 will be an active year for Redcliffe. Production growth is expected to come from the 2006 initial drilling program, the combination with Stallion and the proposed acquisition of Redcliffe Energy. At this time Redcliffe proposes to expend over \$20 million in capital programs for 2007 with 75% of these expenditures dedicated to drilling and exploration. The execution of these capital programs will be subject to available equity financings during 2007. Currently we anticipate the drilling of 20-25 (gross) wells in 2007. While always subject to oil and gas pricing as the year progresses, Redcliffe believes there will be excellent opportunities for growth over the next 12 months facilitated by the general reduction in capital programs throughout the industry. Redcliffe is a small emerging company and is able to react quickly to both changing conditions and opportunity. We are focused on gas exploration and we believe in the strengthening of natural gas prices into 2008 and 2009.

Always wary of debt, the Company will maintain a strong financial position as it builds production and cash flow for the future. While focused on the development of its prospect inventory and the drilling of wells, Redcliffe will continue to seek out synergistic and accretive acquisitions to supplement the exploration activity. Our intention is to develop Redcliffe into an active oil and gas junior player in 2007. General market dynamics and our ability to finance expenditure programs with equity will dictate the extent of this activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS



APRIL 20, 2007

Management's Discussion and Analysis ("MD&A") is Redcliffe Exploration Ltd.'s ("Redcliffe" or the "Company") explanation of its financial performance for the period covered by the financial statements, as well as an analysis of the Company's financial position. The MD&A should be read in conjunction with the financial statements and notes thereto for the period from May 4, 2006 (date of incorporation) to December 31, 2006, which have been prepared in conformity with accounting principles generally accepted in Canada ("GAAP"). Redcliffe commenced activities in 2006 and, consequently, no comparative figures for 2005 are presented.

FORWARD-LOOKING STATEMENTS

This MD&A may include forward-looking statements including opinions, assumptions, estimates and expectations of future production, cash flows and earnings. When used in this document, the words "anticipate," "believe," "estimate," "expect," "forecast," "intent," "may," "project," "plan," "potential," "should" and similar expressions are intended to be among the statements that identify forward-looking statements.

Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Company believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, the volatility of oil and gas prices, the ability to implement corporate strategies, the state of domestic capital markets, the ability to obtain financing, changes in oil and gas acquisition and drilling programs, operating risks, production rates, reserve estimates, changes in general economic conditions, and other factors. Undue reliance should not be placed on forward-looking statements as Redcliffe can give no assurance that they will prove to be correct.

The forward-looking statements contained in this MD&A are made as of the date hereof and Redcliffe undertakes no obligation to update, revise or correct such forward-looking information, whether as a result of new information, future events or otherwise, except as required by law or regulations.

BARREL OF OIL EQUIVALENT

Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. All boe conversions in this MD&A are derived by converting natural gas to crude oil in the ratio of six thousand cubic feet ("mcf") of gas to one barrel ("bbl") of oil. This conversion ratio is based on an energy equivalency conversion method and does not represent a value equivalency. Certain financial values are presented on a per boe basis; such measurements may not be consistent with those used by other companies.

SELECTED ANNUAL INFORMATION

The following table summarizes selected information as of and for the period from May 4, 2006 to December 31, 2006:

Financial (in dollars):	
Revenues	180,533
Net loss	231,564
Net loss per basic and diluted Class A share	0.02
Working capital	6,361,875
Total assets	16,509,652
Capital expenditures	5,604,489
Reserves and land:	
Total proved (mboe) (1)	136.9
Total proved plus probable (mboe) (1)	237.6
Undeveloped land – gross (acres)	14,245
Undeveloped land – net (acres)	4,309
Reserves and land – pro forma: (2)	
Total proved (mboe) (1)	622.8
Total proved plus probable (mboe) (1)	1,055.8
Undeveloped land – gross (acres)	27,579
Undeveloped land – net (acres)	10,249

(1) Gross reserves as evaluated by McDaniel & Associates Consultants Ltd.

(2) Pro forma combination of Redcliffe Exploration Ltd. and Stallion Energy Ltd. to form Redcliffe Exploration Inc. as if transaction had occurred at December 31, 2006 rather than the effective date of the business combination (see "Subsequent events – business combination" below).

QUARTERLY INFORMATION

The following table summarizes key financial information for the three quarters of 2006 since incorporation:

	Q4	Q3	Q2 (1)
Revenues	127,706	51,643	1,184
Net loss	183,837	40,576	7,151
Net loss per basic and diluted Class A share	0.01	-	0.01
Working capital	6,361,875	12,133,966	1,161,323
Total assets	16,509,652	12,488,308	1,275,635
Capital expenditures	5,477,292	127,197	-

(1) For the period from May 4, 2006 (date of incorporation) to June 30, 2006.

GENERAL

Redcliffe was incorporated on May 4, 2006 and, as at December 31, 2006, had raised an aggregate of \$13,600,000 by way of private placement of 5,400,000 Class A shares at an issue price of \$0.25 per share, and through an initial public offering of 12,250 flow-through units at an issue price of \$1,000 per unit. Each of the flow-through units consisted of 400 Class A shares with a stated value of \$0.25, and 90 Class B shares with a stated value of \$10.00.

On February 27, 2007, Redcliffe closed a business combination with Stallion Energy Ltd. ("Stallion"). As further described below under the heading "Subsequent events – business combination", Redcliffe acquired all of the outstanding common shares of Stallion for cash and shares in a reverse takeover transaction. As part of the business combination, Stallion changed its name to Redcliffe Exploration Inc. ("RXI") and received substitutional listing for the existing Redcliffe shares under the new trading symbols RXI.A and RXI.B. As a result of the business combination, Redcliffe became a wholly owned subsidiary of RXI and its shares ceased trading. Financial reporting subsequent to closing the business combination will be on a consolidated basis under RXI.

RESULTS OF OPERATIONS

The Company commenced production in late December 2006. Production for 2006 of 349 boe is therefore not significant. The Company recorded sales \$13,884 of natural gas and natural gas liquids in 2006 as a result of its production. Associated with such sales were royalties of \$3,887, operating expenses of \$2,578, and depletion, depreciation and accretion of \$6,490.

The Company further earned interest income of \$170,536 in 2006, incurred general and administrative expenses of \$424,307 (net of capitalized amounts of \$222,931) and recorded a future income tax recovery of \$21,278, resulting in a net loss of \$231,564 (\$0.02 per basic and diluted Class A share).

General and administrative expenses included \$346,645 of expenses incurred under the Management and Technical Services Agreement with Redcliffe Energy Ltd. ("REL"), a private company related by virtue of certain common directors, officers and shareholders. This agreement became effective on September 1, 2006, upon the successful closing of the Company's initial public offering on August 31, 2006. The remaining general and administrative expenses incurred related to consulting services, professional fees, insurance, stock-based compensation and other general corporate overhead. For the period from May 4, 2006 to December 31, 2006, the Company capitalized \$222,931 of general and administrative expenses, including \$87,546 of non-cash stock-based compensation.

The Company had a future income tax asset at December 31, 2006 of \$359,714, which consisted primarily of the benefit of share issue costs not deducted for tax and a non-capital loss. Further, the Company renounced \$12,250,000 of qualifying exploration and development expenditures with respect to its flow-through share offering in the first quarter of 2007 and, consequently, the future income tax liability effect of such will be recognized in such period.

CAPITAL EXPENDITURES

The Company incurred \$5,604,489 of capital expenditures in 2006, which are detailed below:

	Period from May 4, 2006 to December 31, 2006
Land	\$ 270,365
Geological, geophysical & seismic	24,774
Drilling & completion	5,043,460
Equipment	130,505
Capitalized G&A	135,385
	\$ 5,604,489

During the period, the Company participated in the drilling of 13 (3.44 net) wells and two (0.54 net) re-entries, which resulted in the casing or successful re-completion of 11 (2.74 net) potential gas wells, two (0.60 net) potential oil wells, and one (0.24 net) dry hole. The Company also elected not to participate in the casing of one (0.40 net) well. Further, the Company purchased several land parcels at crown land sales as well as seismic data during the period.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, the Company had working capital of \$6,361,875, cash of \$9,153,220, and no borrowing facilities. Subsequent to year end, the Company arranged a \$7.5 million borrowing facility related to the acquisition of Stallion as described below under "Subsequent events – debt facilities".

For the period from May 4, 2006 to December 31, 2006, the Company used \$68,338 in operating activities.

On June 12, June 30, July 24 and August 14, 2006, the Company completed private placements for an aggregate 5,400,000 Class A shares at \$0.25 per share for gross proceeds of \$1,350,000.

On August 31, 2006, the Company closed its initial public offering of flow-through shares, raising gross proceeds of \$12,250,000. A total of 12,250 units (inclusive of 250 units sold pursuant to the exercise of the over-allotment option) at a price of \$1,000 per unit were sold, resulting in the issuance of 4,900,000 Class A shares and 1,102,500 Class B shares. Each unit consisted of 400 Class A shares and 90 Class B shares, with a stated value of \$0.25 per Class A share and \$10.00 per Class B share. Total share issuance costs were \$1,293,299, which included agents' commissions of \$75 per unit, or \$918,750. In accordance with the terms of the offering, total proceeds from the sale of the units will be used to fund qualifying exploration and development expenditures, with such expenditures being renounced to investors in accordance with applicable tax legislation. Following the closing and through the date hereof, the Company had 10,300,000 Class A shares and 1,102,500 Class B shares outstanding.

Pursuant to an agreement with Olympia Trust Company, dated August 15, 2006, 5,360,000 of the total 5,400,000 Class A founder shares issued were placed into escrow, with 10 percent of the original escrowed shares being released on closing of the Company's initial public offering on August 31, 2006.

Effective June 30, 2006, the directors of the Company approved a stock option plan, pursuant to which options to purchase Class A shares of the Company may be granted to officers, directors, employees and consultants. The stock option plan has reserved for issuance up to 10 percent of the aggregate number of Class A and Class B shares issued and outstanding from time to time. Options granted under the plan will have an exercise price which is not less than the price that is allowed by regulatory authorities, will be non-transferable, and will be exercisable for a period not to exceed 5 years.

On September 7, 2006, the Company granted an aggregate 1,140,250 stock options to acquire Class A shares to certain officers, directors and consultants. The options all have an exercise price of \$0.35, vest

in three equal tranches on the first, second and third anniversaries of the date of the grant, and expire five years from the date of the grant. At December 31, 2006, all 1,140,250 options were issued and outstanding, and none were exercisable at that date.

The Company anticipates that future operating and capital requirements will be funded through working capital, internal cash flow, external debt and equity financing. The Company has established credit facilities subsequent to year end as further described below under "Subsequent events – debt facilities".

SUBSEQUENT EVENTS

Business combination

On February 27, 2007, Redcliffe and Stallion closed a business combination, pursuant to which, the following transactions were completed:

- (a) Stallion changed its name to Redcliffe Exploration Inc. ("RXI");
- (b) RXI created three new classes of shares, namely RXI Class A Shares and RXI Class B Shares, in each case having the same attributes as the existing Class A Shares and Class B Shares of Redcliffe, and RXI Preferred Shares;
- (c) Stallion consolidated and converted its common shares on a basis of 0.56925408 of an RXI Class A Share and one (1) RXI Preferred Share for every one (1) issued and outstanding Stallion common share;
- (d) RXI Preferred Shares were redeemed for cash consideration of \$0.337336 per RXI Preferred Share for total consideration of \$8,000,024; and
- (e) Redcliffe shareholders exchanged all of their Class A and Class B shares for an equivalent number of RXI Class A Shares and RXI Class B Shares, respectively, and Redcliffe amalgamated with 1274580 Alberta Ltd, a wholly owned subsidiary of RXI.

For accounting purposes, Redcliffe was deemed the acquirer in the business combination and, as a result, RXI accounted for the transaction as a reverse takeover by Redcliffe of Stallion. The assets and liabilities of Redcliffe were recorded at their carrying values, while the assets and liabilities of Stallion were recorded at fair values using the purchase method of accounting.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Redcliffe's Class A shares are thinly traded and, as a result, management believes that at the date of acquisition there was not a full and active market for the stock. Consequently, the ascribed value of the Redcliffe Class A shares has been determined based on the recent capitalization and the nature of assets on Redcliffe's balance sheet as at February 27, 2007. Additionally, as part of the acquisition, a joint venture partner agreed to pay an additional \$1,250,000 with respect to their interests in certain properties of Stallion, thereby reducing the original cash consideration from \$8,000,024 to \$6,750,024.

Consideration:		
Issue of 13,500,000 RXI Class A shares	\$	13,062,847
Cash		6,750,024
Transaction costs		540,146
Total consideration		20,353,017
Allocated to:		
Property and equipment		17,840,988
Future income tax		4,944,494
Current assets		820,187
Current liabilities		(3,169,156)
Asset retirement obligations		(83,496)
Net assets acquired	\$	20,353,017

The above amounts are estimates made by management based on currently available information. Revisions may be made to the purchase equation as cost estimates and balances are finalized.

Upon completion of the business combination, RXI had issued and outstanding share capital of 23,800,000 Class A shares and 1,102,500 Class B shares. The existing 1,140,250 stock options of Redcliffe were transferred to RXI unchanged.

In connection with the business combination, the Company's Escrow Agreement was revised such that RXI entered into a new Escrow Agreement with Olympia Trust Company and certain shareholders of RXI, covering 6,256,253 Class A shares of RXI. Under the agreement, 25 percent of the escrowed Class A shares were released from escrow on closing of the business combination. The remaining 75 percent of the escrowed RXI Class A shares will be released in equal 25 percent tranches every six months thereafter, for a period of 18 months.

Stock option grants

On April 17, 2007, RXI granted 100,000 stock options to acquire Class A shares to an officer of the Company at an exercise price of \$0.70. The stock options vest in three equal tranches on the first, second and third anniversaries of the date of the grant, and expire five years from the date of the grant.

Debt facilities

To effect the business combination described above, Redcliffe obtained a \$5 million revolving demand credit facility and a \$2.5 million non-revolving demand bridge facility from ATB Financial. The \$5 million revolving facility bears interest at the lender's prime rate plus 1 percent, is repayable on demand and may be drawn at the Company's discretion. The \$2.5 million bridge facility bears interest at the lender's prime rate plus 3 percent, is repayable on demand, and no later than September 30, 2007, and may be drawn up to the full amount one time upon closing of the business combination. Both of the debt facilities are secured by a first floating charge against all the present and after-acquired property of both Redcliffe and RXI.

COMMITMENTS

Under the terms of the flow-through share offering completed during the period, the Company is obligated to incur \$12,250,000 of qualifying exploration and development expenditures by December 31, 2007.

The Company entered into a Management and Technical Services Agreement, dated June 1, 2006, with REL. Until December 31, 2007, and extendible by mutual agreement, REL shall undertake the day-to-day management of the business and operations of the Company. Monthly payments under the agreement are \$85,000, beginning September 1, 2006, and are subject to amendment.

The Company entered into a Joint Venture Agreement, dated June 1, 2006, with REL, which became effective upon the Company successfully closing its initial public offering on August 31, 2006. Up to December 31, 2007, and extendible by mutual agreement, the REL Joint Venture Agreement requires the Company to participate in a drilling program with the right to earn a 37.5 percent working interest in REL's proportionate share of drilling prospects in exchange for incurring 50 percent of REL's proportionate costs. REL's costs, for purposes of the agreement, range from costs incurred to casing point, to costs incurred through completion and costs incurred through facilities, depending on the nature of the underlying drilling prospect. REL has agreed to provide the Company, during the term of the joint venture, a sufficient number of drillable prospects to allow the Company to expend not less than \$9,450,000 for exploration and development expenditures. The REL Joint Venture Agreement may be terminated earlier than December 31, 2007, at the sole discretion of the Company, on 20 days written notice, or will automatically terminate upon the Company successfully expending the exploration and development funds described above.

TRANSACTIONS WITH RELATED PARTIES

The initial 5,400,000 Class A founder shares issued by the Company for \$1,350,000 were to directors, officers, consultants, and parties related to them. These cash transactions have been recorded at the agreed to exchange amounts.

A director of the Company is a partner of a law firm that provides legal services to the Company. During the period from May 4, 2006 to December 31, 2006, the Company incurred \$226,798 for legal costs and disbursements from this firm; \$87,322 of which was payable at December 31, 2006. These transactions have been recorded under the same terms and conditions as transactions with unrelated parties.

During the period from May 4, 2006 to December 31, 2006, the Company incurred \$346,645 of fees with respect to the Management and Technical Services Agreement with REL. Furthermore, the majority of the Company's exploration and development activity was under the REL Joint Venture Agreement, which commenced in September 2006. At December 31, 2006, the Company's net outstanding payable balance to REL was \$1,188,460.

FINANCIAL INSTRUMENTS

Commodity price risk

At December 31, 2006, the Company had no fixed price contracts or financial instruments associated with future production.

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks in that industry.

Fair values of financial instruments

The carrying values of the financial instruments on the Company's balance sheet approximate their fair values due to their near-term maturity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any special purpose entities nor is it a party to any transactions or arrangements that would be excluded from the balance sheet.

BUSINESS RISKS

The exploration for, and development and production of, crude oil and natural gas involves a wide range of business and financial risks, some of which are beyond the control of the Company. Included in these risks are the uncertainty of finding economically recoverable reserves, fluctuations in commodity prices, interest rate and foreign exchange rate volatility, and the possibility of changes to royalty, tax and environmental regulations. The oil and gas industry is also highly competitive and the Company competes with numerous other companies, many of which have greater financial and human resources.

The business risks facing the Company are mitigated in a number of ways. Geological, geophysical, engineering, environmental and financial analyses are performed on new exploration prospects, development projects and potential acquisitions to ensure an acceptable balance between risk and reward. The Company's ability to increase its production, revenues and cash flows depends on its success in not only developing its existing properties, but also acquiring, exploring for and developing new reserves and production and managing those assets in an efficient manner.

Despite best practice analysis being conducted on projects, there are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves, including future prices for crude oil and natural gas, engineering data, projected future rates of production and the timing of future expenditures. The process of estimating oil and gas reserves requires substantial judgment, resulting in imprecise determinations, particularly for new discoveries. An independent reserve engineering firm evaluates the Company's properties annually to determine a fair estimate of reserves, while a Reserve Committee of the Board of Directors also assists the Board in their annual review of the Company's reserve estimates.

The Company's financial results can be significantly affected by the prices received for its crude oil and natural gas production as commodity prices fluctuate in response to changing market forces. Price volatility is common in the oil and gas industry and is expected to continue. As a result, the Company may enter into contracts to hedge up to 50 percent of its production and thereby reduce the Company's exposure to commodity price volatility. Derivative instruments are not used for speculative or trading purposes.

The Company's financial results are also impacted by fluctuations in the exchange rate between the Canadian and U.S. dollars. Crude oil prices and, to some extent, natural gas prices are based on reference prices denominated in U.S. dollars, while the majority of the Company's expenses are denominated in Canadian dollars.

The Company may be exposed to changes in interest rates as the Company's banking facilities are based on the lender's prime lending rate.

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks in that industry.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by the Company are disclosed in note 2 to the audited financial statements for the period from May 4, 2006 (date of incorporation) to December 31, 2006. Certain accounting policies are identified as critical accounting policies because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain. These accounting policies could result in materially different results should the underlying assumptions or conditions change. Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate. Management assumptions may change over time as operating conditions change.

The following discussion helps assess the accounting policies and practices of the Company as they relate to estimates and the likelihood of material differences occurring.

Reserves

The Company engages independent qualified reserve evaluators to evaluate and provide a report in accordance with NI 51-101 on the Company's reserves each year. Reserve determinations involve forecasts based on property performance, future prices, future production and costs and the timing of expenditures; all of these are subject to uncertainty. The financial statement line items affected by this accounting estimate are property and equipment on the balance sheet (through the provision for accumulated depletion and depreciation) and depletion, depreciation and accretion on the statement of operations and deficit. Accordingly, changes to this estimate can have a significant impact on total assets and net income/loss, but no direct cash flow impact. Reserve estimates will change from one year to the next, thus causing changes in current year amounts booked to the balance sheet and statement of operations and deficit. Reserve revisions can change reported depletion and depreciation and earnings. Downward reserve revisions could result in a ceiling test write-down.

Depletion and depreciation of oil and gas properties is calculated using the unit-of-production method based upon production volumes, before royalties, in relation to total proved oil and gas reserves as estimated by independent engineers. In determining costs subject to depletion, the Company includes

estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values. The cost of undeveloped properties is excluded from costs subject to depletion until it is determined that proved reserves are attributable to the property or impairment has occurred. An increase/decrease in estimated reserves would result in a corresponding reduction/increase in depletion expense. A decrease/increase in the estimated future development costs would also result in a corresponding reduction/increase in depletion expense.

Unproved properties

Certain costs related to the acquisition and evaluation of unproved properties may be excluded from costs subject to depletion. These properties are reviewed quarterly to determine whether any impairment in value has occurred. When proved reserves are assigned or an unproved property is considered to be impaired, the cost of the unproved property or the amount of the impairment is added to the capitalized costs subject to depletion.

Ceiling test

Under the full cost method of accounting, a ceiling test is performed to recognize and measure impairment, if any, of the carrying amount of oil and gas properties. Impairment is recognized if the carrying amount of oil and gas properties, less the cost amount of undeveloped properties not subject to depletion, exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the Company's proved and probable reserves. The Company reviews the related estimates when it performs the ceiling test on a quarterly basis. The impact of changes in the estimates of future prices and costs applied and the quantity of reserves on the financial statements could be material.

Asset retirement obligations

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using the unit-of-production method over estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time (accretion) and changes in the estimated future cash flows underlying the obligation. These estimates are reviewed by the Company on a quarterly basis to ensure circumstances supporting the estimates are still considered reasonable.

Income taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-based compensation

The fair value of stock options granted is calculated using the Black-Scholes option pricing model and is recorded over the vesting period of the related options. The calculation involves estimates of the expected volatility in the trading value of the Company's shares, the price of the underlying shares, the expected life of the options, expected dividends, and the risk-free rate of interest.

CHANGES IN ACCOUNTING POLICIES

As a result of the commencement oil and gas production in 2006, the Company adopted specific accounting policies with respect to its oil and gas properties. Such accounting policies are detailed in note 2 to the financial statements under the subheading "Property and equipment".

Effective January 1, 2007, the Company adopted a series of new standards released by the Canadian Institute of Chartered Accountants, which establish guidance for the recognition and measurement of financial instruments. Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement", and Section 3865 "Hedges" were released in April 2005 and are effective for interim and annual financial statement years beginning on or after October 1, 2006. The Company is currently reviewing the standards and does not expect any significant impact or restatement of prior periods.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation as of the end of the period covered by the annual filings, the Company's that disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not ensure that the disclosure controls and procedures would prevent all

errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO of the Company are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

Management has designed and implemented a system of internal controls over financial reporting as of December 31, 2006 which it believes is effective for a company of its size. During the review of the design of the Company's control system over financial reporting it was noted that, due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties. The limited number of staff may also result in identifying weaknesses in accounting for complex and / or non-routine transactions due to a lack of technical resources within the Company. While management has put in place certain procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

2007 OUTLOOK

The outlook for the general oil and gas industry for 2007 is mixed, when viewed from the total public market perspective. In terms of basic economic parameters the fundamentals are very bullish thanks to a late winter North American cold snap and the continued world oil demand in conjunction with unsettled geopolitical issues in some of the major supply nations. On the other hand, the Canadian public markets have retreated from small emerging oil and gas producers in partial reaction to the Federal government's decision to eliminate, over time, Oil and Gas Royalty Trusts.

On the fundamentals of the oil and gas industry, product prices have remained strong while costs are now being reduced due to decreased drilling and operational activity in western Canada. On the world oil market robust demand growth, tight supplies and snug North American inventory levels will continue to drive oil prices for the remainder of 2007. The new "norm" for world oil prices seems to be gravitating towards \$60.00 US/bbl (WTI) up from the \$50.00/bbl tested earlier this year. Natural gas prices have strengthened from the beginning of this year driven by the coldest February in thirty years for North America. Supply concerns will drive the gas price as Canadian gas supply continues to deteriorate and the U.S. supply stagnates. Only the import of significant volumes of LNG, driven by higher North American

gas prices as compared to Europe, kept recent natural gas prices in check. We remain bullish as to long-term gas prices in North America. At the same time we have witnessed significant lowering of the drilling fleet utilization in western Canada with a corresponding decrease in cost. Crown land sales have shown a definite downward trend in the first quarter and we anticipate further reduction in overall investment and operating costs through 2007. However, if we are correct in our pricing predictions, these reductions may not last as we move into 2008.

A key uncertainty of our industry relates to the small emerging oil and gas exploration companies, like Redcliffe, in the public market. Investors are somewhat concerned of small companies' abilities to compete and therefore have recently moved their investment dollars to larger entities. In addition, investors remain worried about product pricing and the impact of such things as the Kyoto Agreement provisions and the pending end to the Royalty Trusts. This reluctance to invest does impact our ability to raise equity at reasonable levels to execute on our existing drilling inventory and to compete for acquisitions that will require subsequent equity financings to grow. We have, however, witnessed these investment cycles in prior juniors run by the management team and remain confident that the resource investor will eventually realize the value and growth potential in the junior segment of our industry.

ADDITIONAL INFORMATION

Additional information related to Redcliffe can be found on SEDAR at www.sedar.com.

Management Report

Management, in accordance with accounting principles generally accepted in Canada, has prepared the accompanying financial statements of Redcliffe Exploration Ltd. ("Redcliffe"). Financial and operating information presented throughout this report is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP were appointed by Redcliffe's Board of Directors to conduct an audit of the financial statements. Their examination included a review and evaluation of Redcliffe's internal control systems and included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with accounting principles generally accepted in Canada.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee, with assistance from the Reserve Committee regarding the annual evaluation of our crude oil and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors and reviews their fees. The external auditors have access to the Audit Committee without the presence of management.



Daryl H. Connolly
President and Chief Executive Officer



George Gramatke
Vice-President, Finance and Chief Financial Officer

April 20, 2007

Auditors' Report to the Shareholders

We have audited the balance sheet of Redcliffe Exploration Ltd. as at December 31, 2006 and the statements of operations and deficit and cash flows for the period from May 4, 2006 (date of incorporation) to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the period from May 4, 2006 (date of incorporation) to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP.

Chartered Accountants

Calgary, Canada

April 20, 2007

BALANCE SHEET

December 31, 2006

Assets

Current assets:

Cash	\$	9,153,220
Accounts receivable		984,741
Prepaid expenses and deposits		17,740
		10,155,701

Property and equipment (note 3)		5,776,412
Deferred charges		171,697
Future income tax (note 6)		405,842
	\$	16,509,652

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$	3,793,826
		3,793,826

Asset retirement obligations (note 4)		55,109
		3,848,935

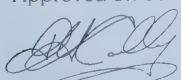
Shareholders' equity:

Share capital (note 5)		12,727,023
Contributed surplus (note 5)		165,258
Deficit		(231,564)
		12,660,717

Commitments (note 8)		
Subsequent events (note 10)		
	\$	16,509,652

See accompanying notes to financial statements.

Approved on behalf of the Board:


Director


Director

STATEMENT OF OPERATIONS AND DEFICIT

For the period from May 4, 2006 (date of incorporation) to December 31, 2006

Revenues:

Crude oil and natural gas sales	\$	13,884
Less: royalties		(3,887)
Interest income		170,536
		180,533

Expenses:

Operating		2,578
General and administrative		424,307
Depletion, depreciation and accretion		6,490
		433,375

Loss before income tax 252,842

Future income tax recovery (note 6) (21,278)

Net loss, representing deficit, end of period \$ 231,564

Per share amounts:

Basic and diluted loss per Class A share	\$	0.02
Basic and diluted weighted-average number of Class A shares outstanding		11,053,267

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

For the period from May 4, 2006 (date of incorporation) to December 31, 2006

Cash provided by (used in):

Operating activities:

Net loss	\$	(231,564)
Items not affecting cash:		
Stock-based compensation		77,712
Depletion, depreciation and accretion		6,490
Future income tax recovery		(21,278)
		(168,640)
Changes in non-cash working capital:		
Accounts receivable		(62,536)
Prepaid expenses and deposits		(17,740)
Accounts payable and accrued liabilities		180,578
		(68,338)

Investing activities:

Property and equipment expenditures	(5,604,489)
Deferred charges	(171,697)
Changes in non-cash working capital	2,691,043
	(3,085,143)

Financing activities:

Issue of Class A and Class B shares	13,600,000
Share issue costs	(1,293,299)
	12,306,701
Net increase in cash, representing cash, end of period	\$ 9,153,220

See accompanying notes to financial statements.

Cash payments of interest and income tax during the period were \$nil.

NOTES TO FINANCIAL STATEMENTS

OPERATIONS

Redcliffe Exploration Ltd. ("Redcliffe" or the "Company") was incorporated under the Business Corporations Act (Alberta) on May 4, 2006. The Company's principal business activity is the exploration for, and development and production of, crude oil and natural gas in Western Canada.

Basis of presentation

The financial statements have been prepared by management in conformity with accounting principles generally accepted in Canada ("GAAP").

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results may differ from such estimates. Specifically, the amounts recorded for depletion and depreciation of property and equipment, and the provision for asset retirement obligations and abandonment costs are based on estimates. The ceiling test is based on estimates of reserves, production rates, crude oil and natural gas prices, future costs and other relevant assumptions. The amounts recorded related to stock-based compensation are based on estimates of the future volatility of the Company's share price, expected lives of options, expected dividends to be paid by the Company, and other relevant assumptions. The amounts recorded for future income tax are based on estimates of the income tax rate at which temporary differences will reverse as well as management's assessment of valuation allowances, if any, against future income tax assets. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements of changes in such estimates in future periods could be significant.

Property and equipment

i) Capitalized costs

The Company follows the full-cost method of accounting for its oil and gas properties, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, costs of drilling both producing and non-producing wells, production equipment and facilities, the fair value of asset retirement obligations, and related overhead expenses. Proceeds from the dispositions of oil and gas properties are applied against capital costs, and no gains or losses are recognized unless such dispositions would result in a change in the rate of depletion of 20 percent or more.

ii) Depletion

Capitalized costs of oil and gas properties are depleted using the units-of-production method based on estimated total proved reserves, before royalties, as determined by the Company's independent reserve engineers. Natural gas reserves and production are converted into equivalent barrels of crude oil based on their relative energy content of six mcf of natural gas to one barrel of crude oil. In addition to the capitalized costs of oil and gas properties, the cost base subject to depletion also includes estimated future development costs, less estimated future salvage values and less the costs, net of impairments, of unproved properties. The costs of acquiring and evaluating unproved properties are excluded from the cost base subject to depletion until a determination is made of whether or not proved reserves are attributable to such properties. Unproved properties are periodically assessed to determine whether any impairment has occurred. When proved reserves are assigned or the unproved property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

iii) Ceiling test

Oil and gas properties are subject to a ceiling test, whereby they are evaluated each reporting period to determine whether the carrying amounts in each cost centre are recoverable and do not exceed the fair value of the properties in the cost centre. The carrying amounts are assessed to be recoverable when the sum of the undiscounted future cash flows expected from the production of proved reserves, plus the cost of unproved properties, net of any impairment, exceeds the carrying amount of the cost centre. If the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the sum of the discounted future cash flows expected from the production of proved and probable reserves, plus the cost of unproved properties, net of any impairment, exceeds the carrying amount of the cost centre. The cash flows are estimated using forecast product prices and costs, and are discounted using a risk-free interest rate.

NOTES TO FINANCIAL STATEMENTS

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iv) Joint ventures

To the extent that exploration, development and production activities are conducted jointly with others, only the Company's proportionate interest in such activities is recorded in the financial statements.

v) Asset retirement obligations

The Company records the fair value of its asset retirement obligations with respect to the retirement of long-lived tangible assets as a liability in the period in which they are incurred, with the corresponding amounts recognized by increasing the carrying amount of the related long-lived assets. The costs capitalized to the related assets are subject to depletion under the units-of-production method as described above. The liability amount is increased each period through accretion and the amount of accretion is charged to operations in the respective period. Revisions to the estimated timing of cash flows or the original estimated costs of the obligations also result in an increase or decrease in the asset retirement obligations. Actual asset retirement expenditures are charges against the liability to the extent of the liability recorded. Any difference between the actual costs incurred and the amount of the liability recorded is recognized as a gain or loss in the period the costs are incurred.

vi) Other property and equipment

Property and equipment not related to oil and gas production is depreciated at rates ranging between 20 and 30 percent per annum on a declining balance basis.

Future income tax

The Company provides for future income tax using the asset and liability method. Future income tax is recognized for temporary differences resulting from the difference between the tax basis of an asset or liability and its balance sheet carrying value. Future income tax assets are recognized only to the extent that realization of such assets is more likely to occur than not. Future income tax assets and liabilities are measured using enacted tax rates in the years in which the temporary differences are expected to reverse.

Stock-based compensation

The Company accounts for stock option agreements using the fair value method. Under this method, the fair value of the stock options, measured at the grant date, is charged to operations over the vesting period, with a corresponding increase in contributed surplus. Upon exercise of the stock options, consideration paid by the option holder, together with the amount recognized in contributed surplus, is credited to share capital.

Flow-through shares

Proceeds from the issuance of flow-through shares are used to fund qualifying exploration and development expenditures, with such expenditures being renounced to investors in accordance with applicable tax legislation. In the period of renouncement, share capital is reduced and future income tax liability is increased by the total estimated future income tax costs of the renounced tax deductions.

Per share amounts

Basic per share amounts are calculated using the weighted-average number of Class A shares outstanding during the period. For purposes of this calculation, Class B shares are deemed to be converted to Class A shares based on the most recent closing price of Class A shares at the end of the period. Diluted per share amounts reflect the potential dilution if stock options or warrants, if any, were exercised and converted to Class A shares. The treasury stock method of calculating diluted per share amounts is used, which assumes that any proceeds received on exercise of stock options or warrants are used to purchase Class A shares at the average market price during the period.

3

Oil and gas properties	\$	5,782,011
Less: accumulated depletion and depreciation		(5,599)
	\$	5,776,412

For the period from May 4, 2006 to December 31, 2006, general and administrative expenses of \$222,931 (including \$87,546 of stock-based compensation costs) related to exploration and development activities were capitalized.

NOTES TO FINANCIAL STATEMENTS

The costs of unproved properties of \$1,852,339 at December 31, 2006 were excluded from the depletion calculation. Future development costs of \$503,100 have been included in costs subject to depletion.

The Company performed a ceiling test calculation at December 31, 2006 and determined there was no impairment of its proved oil and gas properties. The future prices used in the ceiling test calculation are based on a benchmark commodity price forecast used by the Company's independent reserve evaluators as follows:

	AECO Gas Cdn\$/GJ	Edmonton Light Oil Cdn\$/bbl
2007	6.85	70.80
2008	7.05	69.30
2009	7.40	67.70
2010	7.50	66.10
2011	7.70	64.20
2012	7.90	65.60
2013	8.10	66.80
2014	8.25	68.20
2015	8.45	69.50
2016	8.60	70.90
2017	8.75	72.30
2018	8.95	73.80
2019	9.10	75.30
2020	9.30	76.80
2021	9.50	78.30

Prices increase at a rate of 2 percent per year after 2021. Adjustments were made to the benchmark prices for purposes of the ceiling test to reflect varied delivery points and quality differentials in the products delivered.

The Company has estimated the net present value of its total asset retirement obligations at December 31, 2006 to be \$55,109, based on a total future liability of \$208,622. These payments are expected to be made over the next 20 years. A credit adjusted risk-free discount rate of 8 percent and an inflation rate of 2 percent was used to calculate the present value of the asset retirement obligations.

The following table reconciles the Company's asset retirement obligations:

Liabilities incurred	\$	54,218
Accretion expense		891
Carrying amount, December 31, 2006	\$	55,109

Authorized

Unlimited number of Class A shares with no par value
 Unlimited number of Class B shares with no par value
 Unlimited number of preferred shares with no par value, issuable in series

The Class B shares are convertible, at the option of the Company, at any time after June 30, 2009 and before the close of business on June 30, 2011, into Class A shares upon five days prior notice to the holders of Class B shares. The number of Class A shares obtained upon conversion of each Class B share shall be equal to \$10.00 divided by the greater of \$1.00 and the then current market price of the Class A shares. If the Company fails to exercise the conversion option by the close of business on June 30, 2011, then the Class B shares shall be convertible at the option of the shareholder at any time after July 1, 2011 and before July 31, 2011 into Class A shares pursuant to the conversion formula described above. Any Class B shares not converted by the close of business on July 31, 2011 shall be automatically converted into Class A shares pursuant to the conversion formula described above.

NOTES TO FINANCIAL STATEMENTS

Issued and outstanding

	Class A Shares	Class B Shares	Amount
Shares issued for cash	5,400,000	—	\$ 1,350,000
Shares issued for cash on IPO	4,900,000	1,102,500	12,250,000
Share issue costs, net of tax of \$420,322			(872,977)
	10,300,000	1,102,500	\$ 12,727,023

Initial public offering ("IPO")

On August 31, 2006, the Company closed its initial public offering, raising gross proceeds of \$12,250,000. A total of 12,250 units at a price of \$1,000 per unit were sold, resulting in the issuance of 4,900,000 Class A shares (\$1,225,000) and 1,102,500 Class B shares (\$11,025,000). The lead agent for the financing exercised its over-allotment option for 250 units, which is included in the 12,250 total units sold. Each unit consisted of 400 Class A shares and 90 Class B shares, with a stated value of \$0.25 per Class A share and \$10.00 per Class B share. In accordance with the terms of the offering, total proceeds from the sale of the above units will be used to fund qualifying exploration and development expenditures, with such expenditures being renounced to investors in accordance with applicable tax legislation. The renouncement documents were filed in 2007 and, consequently, the tax effect of such renouncements will be recorded in 2007. The agents were paid a commission of \$75 per unit for the offering, for a total of \$918,750.

In connection with the IPO, the Company entered into an Escrow Agreement with Olympia Trust Company and certain shareholders of the Company, covering 5,360,000 Class A shares. Under the agreement, 10 percent of the escrowed Class A shares were released from escrow on closing of the IPO. The remaining 90 percent of the escrowed Class A shares will be released in equal 15 percent tranches every six months thereafter, for a period of 36 months.

Stock-based compensation

The Company has a stock option plan, pursuant to which options to purchase Class A shares of the Company may be granted to officers, directors, employees and consultants. The stock option plan has reserved for issuance up to 10 percent of the aggregate number of Class A and Class B shares issued and outstanding from time to time. Options granted under the plan have an exercise price which is not less than the price that is allowed by regulatory authorities, will be non-transferable, and will be exercisable for a period not to exceed 5 years.

On September 7, 2006, the Company granted an aggregate 1,140,250 stock options to acquire Class A shares to certain officers, directors and consultants. The options all have an exercise price of \$0.35, vest in three equal tranches on the first, second and third anniversaries of the date of the grant, and expire 5 years from the date of the grant. At December 31, 2006, all 1,140,250 options were issued and outstanding, and none were exercisable at that date.

The weighted-average fair value of the stock options at the grant date, as calculated using the Black-Scholes option-pricing model, was \$0.08, using the following assumptions: risk-free interest rate 4 percent; expected life 5 years; and volatility 40 percent.

The Company recorded \$165,258 of compensation expense for the period related to the options, of which \$87,546 was capitalized to oil and gas properties.

Per-share amounts

Per share amounts have been calculated on the weighted-average number of shares outstanding after giving effect to the deemed conversion of Class B shares into Class A shares at 1:7:6 based on the December 29, 2006 closing price of Class A shares of \$1.32. This resulted in 11,053,267 weighted-average Class A shares outstanding for the period from May 4, 2006 to December 31, 2006. The Company's 1,140,250 outstanding stock options at December 31, 2006 have been excluded from the calculation of diluted loss per share for the period from May 4, 2006 to December 31, 2006 as such options are anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

The provision for income tax differs from that which would be obtained from applying the combined Canadian federal and provincial income tax rate to loss before income tax. The difference results from the following:

Loss before income tax	\$	252,842
Combined corporate tax rate		32.5%
Computed "expected" income tax recovery		82,174
Decrease resulting from:		
Stock-based compensation		(25,256)
Benefits relating to change in income tax rates		(23,971)
Resource allowance		(11,043)
Non-deductible amounts and other		(626)
Future income tax recovery	\$	21,278

The components of the Company's future income tax asset are as follows:

Benefit of share issue costs not deducted for tax	\$	340,843
Non-capital loss		98,876
Asset retirement obligations		15,982
Property and equipment		(49,859)
	\$	405,842

At December 31, 2006, the Company had a non-capital loss of approximately \$304,000, expiring in 2026, which may be applied to reduce future years' taxable income.

Commodity price risk

At December 31, 2006, the Company had no fixed price contracts or financial instruments associated with future production.

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks.

Fair values of financial instruments

The carrying values of the financial instruments on the Company's balance sheet approximate their fair values due to their near-term maturity.

Flow-through shares

Under the terms of the flow-through share offering completed during the period, the Company is obligated to incur \$12,250,000 of qualifying exploration and development expenditures by December 31, 2007. At December 31, 2006, the Company had incurred approximately \$4.2 million of qualifying expenditures related to such flow-through shares.

Management and Technical Services Agreement

The Company entered into a Management and Technical Services Agreement, dated June 1, 2006, with Redcliffe Energy Ltd. ("REL"), a private company related by virtue of certain common directors, officers and shareholders. Until December 31, 2007, and extendible by mutual agreement, REL shall undertake the day-to-day management of the business and operations of the Company. Monthly payments under the agreement are \$85,000, and are subject to amendment.

NOTES TO FINANCIAL STATEMENTS

REL Joint Venture Agreement

The Company entered into a Joint Venture Agreement, dated June 1, 2006, with REL, which became effective upon the Company successfully closing its initial public offering on August 31, 2006. Up to December 31, 2007, and extendible by mutual agreement, the REL Joint Venture Agreement requires the Company to participate in a drilling program with the right to earn a 37.5 percent working interest in REL's proportionate share of drilling prospects in exchange for incurring 50 percent of REL's proportionate costs. REL's costs, for purposes of the agreement, range from costs incurred to casing point, to costs incurred through completion and costs incurred through facilities, depending on the nature of the underlying drilling prospect. REL has agreed to provide the Company, during the term of the joint venture, a sufficient number of drillable prospects to allow the Company to expend not less than \$9,450,000 for exploration and development expenditures. The REL Joint Venture Agreement may be terminated earlier than December 31, 2007, at the sole discretion of the Company, on 20 days written notice, or will automatically terminate upon the Company successfully expending the exploration and development funds described above.

The initial 5,400,000 Class A founder shares issued by the Company for \$1,350,000 were to directors, officers, consultants, and parties related to them. These cash transactions have been recorded at the agreed to exchange amounts.

A director of the Company is a partner of a law firm that provides legal services to the Company. During the period from May 4, 2006 to December 31, 2006, the Company incurred \$226,798 for legal costs and disbursements from this firm; \$87,322 of which was payable at December 31, 2006. These transactions have been recorded under the same terms and conditions as transactions with unrelated parties.

During the period from May 4, 2006 to December 31, 2006, the Company incurred \$346,645 of fees with respect to the Management and Technical Services Agreement with REL. Furthermore, the majority of the Company's exploration and development activity was under the REL Joint Venture Agreement, which commenced in September 2006. At December 31, 2006, the Company's net outstanding payable balance to REL was \$1,188,460.

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Business combination

On February 27, 2007, Redcliffe and Stallion Energy Ltd. ("Stallion") closed a business combination, pursuant to which, the following transactions were completed:

- (a) Stallion changed its name to Redcliffe Exploration Inc. ("RXI");
- (b) RXI created three new classes of shares, namely RXI Class A Shares and RXI Class B Shares, in each case having the same attributes as the existing Class A Shares and Class B Shares of Redcliffe, and RXI Preferred Shares;
- (c) Stallion consolidated and converted its common shares on a basis of 0.56925408 of an RXI Class A Share and one (1) RXI Preferred Share for every one (1) issued and outstanding Stallion common share;
- (d) RXI Preferred Shares were redeemed for cash consideration of \$0.337336 per RXI Preferred Share for total consideration of \$8,000,024; and
- (e) Redcliffe shareholders exchanged all of their Class A and Class B shares for an equivalent number of RXI Class A Shares and RXI Class B Shares, respectively, and Redcliffe amalgamated with 1274580 Alberta Ltd, a wholly owned subsidiary of RXI.

NOTES TO FINANCIAL STATEMENTS

For accounting purposes, Redcliffe was deemed the acquirer in the business combination and, as a result, RXI accounted for the transaction as a reverse takeover by Redcliffe of Stallion. The assets and liabilities of Redcliffe were recorded at their carrying values, while the assets and liabilities of Stallion were recorded at fair values using the purchase method of accounting.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Redcliffe's Class A shares are thinly traded and, as a result, management believes that at the date of acquisition there was not a full and active market for the stock. Consequently, the ascribed value of the Redcliffe Class A shares has been determined based on the recent capitalization and the nature of assets on Redcliffe's balance sheet as at February 27, 2007. Additionally, as part of the acquisition, a joint venture partner agreed to pay an additional \$1,250,000 with respect to their interests in certain properties of Stallion, thereby reducing the original cash consideration from \$8,000,024 to \$6,750,024.

Consideration:		
Issue of 13,500,000 RXI Class A shares	\$	13,062,847
Cash		6,750,024
Transaction costs		540,146
Total consideration		20,353,017
Allocated to:		
Property and equipment		17,840,988
Future income tax		4,944,494
Current assets		820,187
Current liabilities		(3,169,156)
Asset retirement obligations		(83,496)
Net assets acquired	\$	20,353,017

The above amounts are estimates made by management based on currently available information. Revisions may be made to the purchase equation as cost estimates and balances are finalized.

Upon completion of the business combination, RXI had issued and outstanding share capital of 23,800,000 Class A shares and 1,102,500 Class B shares. The existing 1,140,250 stock options of Redcliffe were transferred to RXI unchanged.

In connection with the business combination, the Company's Escrow Agreement described in Note 5 was revised such that RXI entered into a new Escrow Agreement with Olympia Trust Company and certain shareholders of RXI, covering 6,256,253 Class A shares of RXI. Under the agreement, 25 percent of the escrowed Class A shares were released from escrow on closing of the business combination. The remaining 75 percent of the escrowed RXI Class A shares will be released in equal 25 percent tranches every six months thereafter, for a period of 18 months.

Stock option grants

On April 17, 2007, RXI granted 100,000 stock options to acquire Class A shares to an officer of the Company at an exercise price of \$0.70. The stock options vest in three equal tranches on the first, second and third anniversaries of the date of the grant, and expire 5 years from the date of the grant.

Debt facilities

To effect the business combination described above, Redcliffe obtained a \$5 million revolving demand credit facility and a \$2.5 million non-revolving demand bridge facility from ATB Financial. The \$5 million revolving facility bears interest at the lender's prime rate plus 1 percent, is repayable on demand and may be drawn at the Company's discretion. The \$2.5 million bridge facility bears interest at the lender's prime rate plus 3 percent, is repayable on demand, and no later than September 30, 2007, and may be drawn up to the full amount one time upon closing of the business combination. Both of the debt facilities are secured by a first floating charge against all the present and after-acquired property of both Redcliffe and RXI.

CORPORATE INFORMATION

OFFICERS

Daryl H. Connolly
Chairman, President & Chief Executive Officer

George Gramatke
Vice President, Finance & Chief Financial Officer

John P. Andersen
Vice President, Exploration

Bruce G. Hall
Vice President, Land

S. Brent Dube
Vice President, Operations

Robert R. Verbuck
Corporate Secretary

DIRECTORS

AUDIT COMMITTEE
Donald Cowie, as Chair of the Audit Committee
Uldis Uptis
Glenn Hockley

COMPENSATION COMMITTEE
James H. Rawls, as Chair of the Compensation Committee
Wazir C. (Mike) Seth
Harley L. Winger

RESERVES COMMITTEE
Wazir C. (Mike) Seth, as Chair of the Reserves Committee
James H. Rawls
Uldis Uptis

CORPORATE GOVERNANCE COMMITTEE
Harley L. Winger, as Chair of the Corporate Governance Committee
Donald Cowie
Glenn Hockley

BANK

ATB Financial
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Calgary, Alberta T2P 1B9

ENGINEERS

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Calgary, Alberta T2P 3G6

LEGAL COUNSEL

Burstall Winger
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Calgary, Alberta T2P 2Z1

AUDITORS

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Calgary, Alberta T2P 4B9

TRANSFER AGENT

Olympia Trust Company
2300, 125 – 9 Avenue S.E.
Calgary, Alberta T2G 0P6

STOCK EXCHANGE

TSX.V
Symbols: RXI.A & RXI.B

REDCLIFFE | *Exploration Inc.*

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REDCLIFFE EXPLORATION INC.

(the "Corporation")

2007 NI 51-102 Request Form

TO REGISTERED HOLDERS AND BENEFICIAL OWNERS OF SECURITIES

National Instrument 51-102 requires that the Corporation send annually to the registered holders and beneficial owners of its securities a request form to allow the securityholders to elect to receive a copy of the Corporation's financial statements. If you wish to receive the Corporation's financial statements or other selective securityholder communications, please complete and return this form.

Please note that this request form will be mailed each year and both registered and beneficial securityholders must return this form each year to remain on the Corporation's distribution list.

PLEASE RETURN TO:

REDCLIFFE EXPLORATION INC.
c/o Olympia Trust Company
2300, 125 – 9 Avenue SE
Calgary, Alberta
T2G 0P6

The undersigned securityholder of the Corporation hereby elects to receive:

- ☐ (A) Annual financial statements and MD&A of the Corporation, or
- ☐ (B) Interim financial statements and MD&A of the Corporation, or
- ☐ (C) Both (A) and (B) as described above.

NAME: (Please print)

ADDRESS:

SIGNATURE:

I certify that I am a securityholder of the Corporation

DATE:

The Canadian Securities Administration recognizes that developments in information technology allow companies to disseminate documents to securityholders and investors in a more timely and cost efficient manner than by traditional paper methods. By providing an e-mail address, you will be deemed to be consenting to the electronic delivery to you at such e-mail address of the interim financial statements and reports, if electronic delivery is allowed by applicable regulatory rules and policies.

E:MAIL (optional):
